

**SPENCER MUNICIPAL HOSPITAL AND
ABBEN CANCER CENTER, LLC
FINANCIAL STATEMENTS,
SUPPLEMENTAL INFORMATION, AND
INDEPENDENT AUDITORS' REPORTS
FOR THE YEARS ENDED
JUNE 30, 2016 AND 2015**

SPENCER MUNICIPAL HOSPITAL AND
ABBEN CANCER CENTER, LLC
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SPENCER MUNICIPAL HOSPITAL
BOARD OF TRUSTEES AND OFFICIALS
JUNE 30, 2016

BOARD OF TRUSTEES

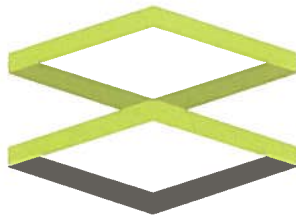
TITLE

TERM EXPIRES

John Cotton	Chairman	December 31, 2019
Neal Conover	Vice Chairman	December 31, 2017
Steve Lensing	Secretary/Treasurer	December 31, 2019
Gary VanHofwegen, DDS	Trustee	December 31, 2017
Julie Christensen	Trustee	December 31, 2019

HOSPITAL OFFICIALS

William Bumgarner	President and Chief Executive Officer
Stephen Deutsch	Vice President of Operations Support
Stacy Mol	Executive Director of Finance
Brenda Tiefenthaler	Vice President of Patient Care Services and Informatics
Susan Zulk	Vice President of Marketing and Fund Development



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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Spencer Municipal Hospital and
Board of Managers of
Abben Cancer Center, LLC
Spencer, IA 51301

Report on the Financial Statements

We have audited the accompanying financial statements of Spencer Municipal Hospital (Hospital), a component unit of the City of Spencer, Iowa, and Abben Cancer Center, LLC (Abben), a discretely presented component unit, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Abben were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entities' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entities' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Spencer Municipal Hospital and Abben Cancer Center, LLC, a discretely presented component unit, as of June 30, 2016 and 2015, and the changes in financial position and members' equity, respectively, and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of a Matter - Adoption of a New Accounting Principle

As discussed in Note 14 to the financial statements, Spencer Municipal Hospital adopted new accounting guidance related to Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*. The Statement sets forth guidance for determining and disclosing the fair value of assets and liabilities reported in the financial statements.

Other Matters

Required Supplementary Information - Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis, the Budgetary Comparison Schedule, the Schedule of Proportionate Share of the Net Pension Liability, the Schedule of Hospital Contributions, and the Schedule of Funding Progress for the Retiree Health Plan on pages 5 through 10 and 41 through 45 be presented to supplement the basic financial statements of the Hospital. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplemental Information - Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hospital's basic financial statements. The supplemental information included in Schedules 1 through 6 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Information - Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The other information included in Schedule 7, which is marked "unaudited", is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2016 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Wenther, Steve & Co., LLP

October 3, 2016
Spencer, Iowa

SPENCER MUNICIPAL HOSPITAL MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

Spencer Municipal Hospital (the Hospital) offers readers of our financial statements this narrative overview and analysis of the financial activities of the Hospital for the fiscal years ended June 30, 2016 and 2015. We encourage readers to consider the information presented here in conjunction with the Hospital's financial statements, including the notes thereto.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Hospital's audited financial statements. The financial statements are composed of the statement of net position, statement of revenues, expenses, and changes in net position, and the statement of cash flows. The financial statements also include notes to the financial statements that explain in more detail some of the information in the financial statements. The financial statements are designed to provide readers with a broad overview of the Hospital's financial position. In addition, the basic financial statements of Abben Cancer Center, LLC, a component unit, are separately presented.

Financial Statements

The Hospital's financial statements report information of the Hospital using accounting methods similar to those used by private sector healthcare organizations. These statements offer short- and long-term information about its activities. The statement of net position includes all of the Hospital's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). The statement of net position also provides the basis for evaluating the capital structure of the Hospital and assessing the liquidity and financial flexibility of the Hospital.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net position. This statement measures the success of the Hospital's operations over the past two years and can be used to determine whether the Hospital has successfully recovered all of its costs through its patient service revenue and other revenue sources. The Hospital does not receive any funding or property tax revenues from the City of Spencer. Revenues and expenses are reported on an accrual basis, which means the related cash could be received or paid in a subsequent period.

The final statement is the statement of cash flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and related financing activities. It also provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Highlights for 2016

Effective July 1, 2015, the Hospital entered into a provider based relationship agreement that included a family practice clinic operating in Spencer as well as the establishment of a hospitalist program. This increased our total operating revenues and expenses by approximately \$10.5 million and \$11.8 million, respectively.

- Total assets increased by \$8,128,664 to \$128,636,580.
- Net position increased by \$6,322,223
- Total noncurrent cash and investments increased by \$133,439.
- Total liabilities and deferred inflows increased by \$1,806,441.
- The operating margin for fiscal year 2016 was 7.2%.

SPENCER MUNICIPAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Financial Highlights for 2015, as Restated

- Total assets increased by \$6,896,070 to \$120,507,916.
- Net position increased by \$8,288,839.
- Total noncurrent cash and investments decreased by \$5,287,989.
- Total liabilities and deferred inflows decreased by \$1,392,769.
- The operating margin for fiscal year 2015 was 12.32%.

Financial Analysis of the Hospital

The statement of net position and the statement of revenues, expenses, and changes in net position report the net position of the Hospital and the changes in them. The statement of net position includes all of the Hospital's assets, liabilities, and deferred outflows and inflows and provides a way to measure financial health or financial position. Over time, sustained increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic condition, population growth and new or changed governmental legislation should also be considered.

Condensed Statements of Net Position

A summary of the Hospital's statements of net position at June 30, 2016, 2015, and 2014 are presented in Table 1 below:

Table 1 (in thousands)

Condensed Statements of Net Position	<u>2016</u>	<u>2015</u> <u>(Restated)</u>	<u>2014</u> <u>(Restated)</u>
Current and other assets	\$ 69,328	\$ 65,318	\$ 61,548
Capital assets	54,221	52,513	50,133
Deferred outflows of resources	<u>5,088</u>	<u>2,677</u>	<u>1,931</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$128,637</u>	<u>\$120,508</u>	<u>\$113,612</u>
Current liabilities	\$ 11,064	\$ 8,912	\$ 8,152
Long-term liabilities	18,110	17,031	6,066
Deferred inflows of resources	<u>4,613</u>	<u>6,037</u>	<u>19,155</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>\$ 33,787</u>	<u>\$ 31,980</u>	<u>\$ 33,373</u>
Invested in capital assets - net of related debt	\$ 50,028	\$ 46,777	\$ 42,924
Restricted	2,004	2,079	2,172
Unrestricted	<u>42,818</u>	<u>39,672</u>	<u>35,143</u>
TOTAL NET POSITION	<u>\$ 94,850</u>	<u>\$ 88,528</u>	<u>\$ 80,239</u>

Net position increased by \$6,322,223 to \$94,850,310 in fiscal year 2016. The change in net position results primarily from operating income. Net position increased by \$8,288,839 to \$88,528,087 in fiscal year 2015. In accordance with a new pension accounting standard, net position was restated as of June 30, 2014 by a reduction of \$17,224,181.

SPENCER MUNICIPAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Condensed Statements of Revenues, Expenses, and Changes in Net Position

The following table presents a summary of the Hospital's historical revenues, expenses, and changes in net position for each of the fiscal years ended June 30, 2016, 2015, and 2014.

Table 2 (in thousands)

Condensed Statements of Revenues, Expenses, and Changes in Net Position

	Year Ended June 30,		
	<u>2016</u>	<u>2015</u> <u>(Restated)</u>	<u>2014</u> <u>(Restated)</u>
Operating revenues	\$ 85,860	\$ 72,648	\$ 65,736
Operating expenses	<u>79,676</u>	<u>63,700</u>	<u>61,914</u>
Operating income	6,184	8,948	3,822
Nonoperating income (expense)	<u>69</u>	<u>(1,049)</u>	<u>2,286</u>
Excess of revenues over expenses before contributions	6,253	7,899	6,108
Contributions	<u>69</u>	<u>390</u>	<u>103</u>
Change in net position	6,322	8,289	6,211
Restatement	-	-	(17,224)
Total net position - beginning of year	<u>88,528</u>	<u>80,239</u>	<u>91,252</u>
TOTAL NET POSITION - END OF YEAR	<u>\$ 94,850</u>	<u>\$ 88,528</u>	<u>\$ 80,239</u>

Operating and Financial Performance

The following discusses the Hospital's operations and statements of revenue, expenses, and changes in net position as of June 30, 2016, 2015, and 2014.

Volume - Volume statistics are as follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Inpatient discharges	2,453	2,484	2,221
Inpatient days	10,294	10,574	8,846
Outpatient visits	123,499	121,603	116,756

Net Patient Service Revenue - Our net patient service revenues increased \$2,641,586 in 2016 and increased \$6,788,403 in 2015. These changes are the result of the following changes in gross revenues and contractual and bad debt adjustments. Contractual adjustments are the estimated amounts the Hospital will not collect from Medicare, Medicaid, and insurance companies.

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total patient service revenues	\$193,376,529	\$176,787,554	\$154,840,311
Contractual and bad debt adjustments	(121,606,332)	(107,658,943)	(92,500,103)
Adjustments as percent of revenues	<u>62.9%</u>	<u>60.9%</u>	<u>59.7%</u>

SPENCER MUNICIPAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

The following table presents the relative percentages of gross charges billed for patient services by payor for the years ended June 30, 2016, 2015, and 2014.

Table 3

Payor Mix by Percentage

	Year Ended June 30,		
	2016	2015	2014
Medicare	48.56%	47.48%	48.47%
Wellmark/Blue Cross/Blue Shield	28.41	27.89	28.23
Managed Care/Commercial	7.72	8.96	8.78
Medicaid/Managed Care	10.26	10.35	8.19
All other	5.05	5.32	6.33
TOTAL	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Salaries - Salaries increased by \$841,749 in 2016 and increased by \$700,901 in 2015. For the fiscal year ended June 30, 2016, the Hospital employed 434 full-time equivalent employees, compared to 429 in 2015 and 423 in 2014. The Hospital is in a competitive wage market and annually utilizes numerous surveys to ensure a competitive compensation package is offered to employees.

Employee Benefits - Benefits increased by \$1,343,106 in 2016 and decreased by \$1,216,247 in 2015. The Hospital offers a comprehensive benefit package to its employees. Benefits include but are not limited to health insurance, short and long-term disability, IPERS, and life insurance.

Cash Flows - The Hospital's cash flows are consistent with the changes in operating income and financial performance, as discussed earlier.

Capital Assets

At June 30, 2016, the Hospital had \$118,823,651 invested in capital assets as shown in Table 4. The \$7,149,457 net increase in capital assets for the fiscal year was due to construction in progress of the Birth Center addition which opened in August 2016. Major equipment purchases during the fiscal year include surgical updates and instruments, upgrade to time keeping system, patient monitoring system, ultrasound upgrade, new patient beds, lab equipment and electronic health record software for the therapy departments.

At June 30, 2015, the Hospital had \$111,674,194 invested in capital assets as shown in Table 4. The \$8,020,684 net increase in capital assets was due to major purchases for the fiscal year including the real estate purchase of a surgical center in Spencer and a family practice clinic building in Milford. Major equipment purchases during the fiscal year include a surgical robot, new ambulance, and electronic health record software for the home health, community health and hospice departments.

SPENCER MUNICIPAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

The following table summarizes the Hospital's capital assets as of June 30, 2016, 2015, and 2014.

Table 4

Capital Assets (in thousands)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Land	\$ 2,906	\$ 2,906	\$ 2,461
Land improvements	2,059	1,853	1,812
Buildings	55,923	55,719	52,763
Fixed equipment	11,082	10,947	10,689
Major movable equipment	41,387	39,390	35,795
Construction in progress	<u>5,467</u>	<u>859</u>	<u>134</u>
Subtotal	118,824	111,674	103,654
Less accumulated depreciation	<u>64,603</u>	<u>59,161</u>	<u>53,521</u>
 CAPITAL ASSETS - NET	 <u>\$ 54,221</u>	 <u>\$ 52,513</u>	 <u>\$ 50,133</u>

Long-Term Debt

The Hospital had long term-debt balances of \$4,193,072 and \$5,736,264 as of June 30, 2016 and 2015, respectively. Further details are provided in the financial statement notes.

Performance Compared to Budget

The original budget was amended by substantial amounts to allow for the addition of the Spencer medical clinic and hospitalist program that commenced operations on July 1, 2015 and had not been finalized when the original budget was approved. The following table compares fiscal year 2016 actual to budget information for the statement of revenues, expenses, and changes in net position.

Table 5

Budget vs. Actual (in thousands)

	FY 2016 <u>Budget</u>	FY 2016 <u>Actual</u>	Dollar Variance Favorable (Unfavorable)
Operating revenues	\$ 85,115	\$ 85,860	\$ 745
Operating expenditures	<u>80,651</u>	<u>79,676</u>	<u>975</u>
Operating income	4,464	6,184	1,720
Other nonoperating changes in net position	<u>693</u>	<u>138</u>	<u>(555)</u>
 Excess of revenues over expenses	 <u>\$ 5,157</u>	 <u>\$ 6,322</u>	 <u>\$ 1,165</u>

SPENCER MUNICIPAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Economic and Other Factors and Next Year's Budget

The Hospital's Board and management considered many factors when setting the fiscal year budgets. Of primary importance in setting the 2016 budget is the status of the economy, which takes into account market forces and environmental factors such as:

- Medicare, Medicaid and Wellmark/Blue Cross Blue Shield reimbursement rates
- Privacy legislation (HIPAA)
- Healthcare reform legislation
- Increased expectations for quality at a lower price
- Workforce shortages
- Cost of supplies and equipment
- Cost of construction projects
- Increasing pharmaceutical costs
- Pharmaceutical shortages
- Decreasing number of uninsured patients
- Increasing insurance deductibles
- Investment market

Community Contributions

During fiscal years 2016 and 2015, the Hospital contributed much to the communities it serves. Charity care and uncompensated care totaled \$2,780,243 and \$1,860,706, respectively.

The Hospital provides many services that are operated at a loss for the benefit of the communities it serves. Many of these programs are offered at no cost; a few are offered for a minimal service fee. Services offered for the benefit of these communities include: emergency services coverage at community events, wellness screenings, job shadowing/internships, various health education classes, public safety awareness programs, support groups, and providing the use of facilities to community groups.

In addition, many routine services are provided by the Hospital at a loss. These include: Ambulance Services, Cardiac/Pulmonary Rehabilitation, Home Health and Public Health Programs, Inpatient Mental Health, Best Care for Better Babies, Women's Health, Rehabilitation Services (Physical, Occupational, and Speech), Family Practice Clinics in Spencer, Milford and Sioux Rapids, Hospitalist program, and Diabetic Education.

Contacting the Hospital's Finance Department

The Hospital's financial statements are designed to present users with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability. The Hospital's component unit, Abben Cancer Center, LLC, has prepared separate financial statements. If you have questions about the Hospital's report, Abben's report, or need additional financial information, please contact the finance department at Spencer Municipal Hospital, 1200 First Avenue East, Spencer, Iowa 51301.

SPENCER MUNICIPAL HOSPITAL
STATEMENTS OF NET POSITION
JUNE 30, 2016 AND 2015

ASSETS

	<u>2016</u>	<u>2015</u> <u>(Restated)</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 32,282,273	\$ 32,207,670
Patient receivables - net of allowances for doubtful accounts and contractual adjustments of \$21,158,132 and \$16,240,500, respectively	13,112,636	10,233,310
Other receivables	1,929,035	1,562,359
Investments	12,017,453	11,876,835
Inventories	3,449,831	3,154,154
Prepaid expenses	<u>1,210,141</u>	<u>1,308,305</u>
TOTAL CURRENT ASSETS	<u>64,001,369</u>	<u>60,342,633</u>
NONCURRENT CASH AND INVESTMENTS:		
Internally designated for noncurrent purposes	2,508,505	2,300,184
Principal of permanent endowments	1,803,999	1,877,475
Restricted by donors for operations	<u>200,074</u>	<u>201,480</u>
TOTAL NONCURRENT CASH AND INVESTMENTS	<u>4,512,578</u>	<u>4,379,139</u>
CAPITAL ASSETS:		
Land	2,906,450	2,906,450
Construction in progress	5,466,993	859,092
Depreciable property, plant, and equipment	<u>110,450,208</u>	<u>107,908,652</u>
TOTAL CAPITAL ASSETS	118,823,651	111,674,194
Less accumulated depreciation	<u>64,602,584</u>	<u>59,161,480</u>
CAPITAL ASSETS - NET	<u>54,221,067</u>	<u>52,512,714</u>
OTHER ASSETS:		
Investment in Abben	783,089	623,869
Investment (share of deficiency) in home medical equipment company	<u>30,833</u>	<u>(27,543)</u>
TOTAL OTHER ASSETS	<u>813,922</u>	<u>596,326</u>
DEFERRED OUTFLOWS OF RESOURCES:.....	<u>5,087,644</u>	<u>2,677,104</u>
 TOTALS	 <u>\$128,636,580</u>	 <u>\$120,507,916</u>

SPENCER MUNICIPAL HOSPITAL
STATEMENTS OF NET POSITION - Continued
JUNE 30, 2016 AND 2015

LIABILITIES AND NET POSITION

	<u>2016</u>	<u>2015</u> <u>(Restated)</u>
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 1,618,215	\$ 1,543,192
Accounts payable:		
Trade	3,359,209	2,057,114
Construction and equipment	523,000	329,000
Accrued salaries and wages	3,802,594	3,622,509
Payroll taxes payable	571,124	261,363
Estimated third-party payor settlements	501,217	501,217
Other current liabilities	<u>688,574</u>	<u>597,380</u>
TOTAL CURRENT LIABILITIES	<u>11,063,933</u>	<u>8,911,775</u>
LONG-TERM LIABILITIES:		
Long-term debt - net of current portion	2,574,857	4,193,072
Net pension liability	15,466,675	12,607,868
Other post-employment benefits	<u>67,982</u>	<u>229,938</u>
TOTAL LONG-TERM LIABILITIES	<u>18,109,514</u>	<u>17,030,878</u>
TOTAL LIABILITIES	<u>29,173,447</u>	<u>25,942,653</u>
DEFERRED INFLOWS OF RESOURCES:		
Pension related deferred inflows	<u>4,612,823</u>	<u>6,037,176</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>4,612,823</u>	<u>6,037,176</u>
NET POSITION:		
Net investment in capital assets	50,027,995	46,776,451
Restricted by donor - nonexpendable	1,803,999	1,877,475
Restricted by donor - expendable	200,074	201,480
Unrestricted	<u>42,818,242</u>	<u>39,672,681</u>
TOTAL NET POSITION	<u>94,850,310</u>	<u>88,528,087</u>
TOTALS	<u>\$128,636,580</u>	<u>\$120,507,916</u>

SPENCER MUNICIPAL HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u> <u>(Restated)</u>
OPERATING REVENUES:		
Net patient service revenue	\$ 71,770,197	\$ 69,128,611
Abben Cancer Center net earnings	609,220	490,060
Provider based clinic revenue	10,046,514	-
Clinic revenue	513,712	560,531
Other operating revenues	<u>2,920,334</u>	<u>2,468,395</u>
TOTAL OPERATING REVENUES	<u>85,859,977</u>	<u>72,647,597</u>
OPERATING EXPENSES:		
Salaries	22,910,224	22,068,475
Employee benefits	8,176,779	6,833,673
Professional services	18,433,811	7,953,721
Prescription drugs	7,958,839	5,905,174
Supplies and other	16,633,755	15,253,825
Depreciation	<u>5,562,609</u>	<u>5,685,283</u>
TOTAL OPERATING EXPENSES	<u>79,676,017</u>	<u>63,700,151</u>
OPERATING INCOME	<u>6,183,960</u>	<u>8,947,446</u>
NONOPERATING INCOME (EXPENSES):		
Interest income	345,385	254,982
Net investment income (loss)	(48,595)	292,876
Impairment losses	-	(1,075,307)
Interest expense	(232,335)	(302,980)
Gain (loss) on disposal of capital assets	10,258	(211,741)
Scholarships granted	<u>(5,500)</u>	<u>(6,770)</u>
NET NONOPERATING INCOME (EXPENSES)	<u>69,213</u>	<u>(1,048,940)</u>
INCOME BEFORE CONTRIBUTIONS	6,253,173	7,898,506
CAPITAL CONTRIBUTIONS	<u>69,050</u>	<u>390,333</u>
CHANGE IN NET POSITION	6,322,223	8,288,839
NET POSITION - BEGINNING OF YEAR (2015, as restated) .	<u>88,528,087</u>	<u>80,239,248</u>
NET POSITION - END OF YEAR	<u>\$ 94,850,310</u>	<u>\$ 88,528,087</u>

SPENCER MUNICIPAL HOSPITAL
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third party payors	\$ 79,451,097	\$ 67,583,770
Cash paid to suppliers for goods and services	(41,824,646)	(29,317,351)
Cash paid to employees for services	(31,735,199)	(29,926,119)
Other operating revenues	2,495,282	2,345,790
Other amounts paid	(5,500)	(6,770)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>8,381,034</u>	<u>10,679,320</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchases of capital assets	(7,088,923)	(8,117,788)
Purchase of intangibles	-	(1,075,307)
Proceeds from sale of capital assets	22,219	4,251
Principal payments on long-term debt	(1,543,192)	(1,472,821)
Interest paid on long-term debt	(238,318)	(308,689)
Capital grants and contributions received	69,050	390,333
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(8,779,164)</u>	<u>(10,580,021)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(13,019,231)	(847,194)
Proceeds from sale and maturities of investments	12,316,542	536,514
Income on investments	812,169	623,246
Distributions received from Abben	450,000	500,000
Change in other assets	1,622	3,785
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>561,102</u>	<u>816,351</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	162,972	915,650
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>32,906,522</u>	<u>31,990,872</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 33,069,494</u>	<u>\$ 32,906,522</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF FINANCIAL POSITION:		
Cash and cash equivalents per statements of financial position:		
Current assets	\$ 32,282,273	\$ 32,207,670
Included in noncurrent cash and investments	<u>787,221</u>	<u>698,852</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 33,069,494</u>	<u>\$ 32,906,522</u>

SPENCER MUNICIPAL HOSPITAL
STATEMENTS OF CASH FLOWS - Continued
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 6,183,960	\$ 8,947,446
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	5,562,609	5,685,283
Equity in earnings of Abben	(609,220)	(490,060)
Equity in earnings of home medical equipment company ...	(58,376)	(6,066)
Components of non-operating and operating expenses reclassified for purposes of reporting cash flows:		
Scholarships awarded	(5,500)	(6,770)
(Increase) decrease in:		
Patient receivables	(2,879,326)	(2,105,372)
Other receivables	(366,676)	(116,539)
Inventories	(295,677)	(192,210)
Prepaid expenses	98,164	(212,886)
Deferred outflows of resources	(2,410,540)	(746,267)
Increase (decrease) in:		
Accounts payable	1,302,095	169,839
Accrued salaries and wages	180,085	285,178
Payroll taxes payable	309,761	46,323
Net pension liability	2,858,807	(6,547,150)
Other liabilities	(64,779)	(68,605)
Deferred inflows of resources	<u>(1,424,353)</u>	<u>6,037,176</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 8,381,034</u>	<u>\$ 10,679,320</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL, FINANCING, AND INVESTING ACTIVITIES:		
Capital asset purchases	\$ 7,282,923	\$ 8,280,788
Change in construction accounts payable	<u>(194,000)</u>	<u>(163,000)</u>
Cash paid to purchase capital assets	<u>\$ 7,088,923</u>	<u>\$ 8,117,788</u>

ABBEN CANCER CENTER, LLC
(A Component Unit of Spencer Municipal Hospital)
BALANCE SHEETS
JUNE 30, 2016 AND 2015

ASSETS

	<u>2016</u>	<u>2015</u>
CURRENT ASSETS:		
Cash	\$ 283,433	\$ 259,025
Patient receivables - net of allowance for doubtful accounts and contractual adjustments of \$471,900 and \$310,100, respectively	306,872	134,253
Prepaid expenses	<u>220,902</u>	<u>220,742</u>
 TOTAL ASSETS	 <u>\$ 811,207</u>	 <u>\$ 614,020</u>

LIABILITIES AND MEMBER'S EQUITY

CURRENT LIABILITIES:		
Accounts payable	\$ 68,555	\$ 28,153
Accounts payable to Spencer Municipal Hospital	<u>216,028</u>	<u>218,463</u>
TOTAL CURRENT LIABILITIES	284,583	246,616
 MEMBER'S EQUITY	 <u>526,624</u>	 <u>367,404</u>
 TOTAL LIABILITIES AND MEMBER'S EQUITY	 <u>\$ 811,207</u>	 <u>\$ 614,020</u>

ABBEN CANCER CENTER, LLC
 (A Component Unit of Spencer Municipal Hospital)
 STATEMENTS OF INCOME AND MEMBER'S EQUITY
 FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
NET PATIENT SERVICE REVENUE	\$2,821,659	\$3,009,543
OPERATING EXPENSES:		
Professional medical services	1,302,453	1,356,888
Medical supplies	12,174	13,650
Facility expenses	820,692	1,053,650
General and administrative	84,333	103,610
TOTAL OPERATING EXPENSES	<u>2,219,652</u>	<u>2,527,798</u>
OPERATING INCOME	<u>602,007</u>	<u>481,745</u>
NONOPERATING INCOME:		
Interest income	265	357
Contributions and other income	6,948	7,959
TOTAL NONOPERATING INCOME	<u>7,213</u>	<u>8,316</u>
NET INCOME	609,220	490,061
MEMBER'S EQUITY - BEGINNING OF YEAR	367,404	377,343
DISTRIBUTIONS TO HOSPITAL	<u>(450,000)</u>	<u>(500,000)</u>
MEMBER'S EQUITY - END OF YEAR	<u>\$ 526,624</u>	<u>\$ 367,404</u>

ABBEN CANCER CENTER, LLC
 (A Component Unit of Spencer Municipal Hospital)
 STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 609,220	\$ 490,061
Adjustments to reconcile net income to net cash provided by operating activities:		
(Increase) decrease in:		
Patient receivables	(172,619)	83,388
Other current assets	(160)	(24,200)
Increase (decrease):		
Accounts payable	40,402	(21,731)
Accounts payable to Spencer Municipal Hospital	(2,435)	86,892
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>474,408</u>	<u>614,410</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Distributions to Hospital	<u>(450,000)</u>	<u>(500,000)</u>
NET CASH USED BY FINANCING ACTIVITIES	<u>(450,000)</u>	<u>(500,000)</u>
NET INCREASE IN CASH	24,408	114,410
CASH AT BEGINNING OF YEAR	<u>259,025</u>	<u>144,615</u>
CASH AT END OF YEAR	<u>\$ 283,433</u>	<u>\$ 259,025</u>

SPENCER MUNICIPAL HOSPITAL AND
ABBEN CANCER CENTER, LLC
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Spencer Municipal Hospital (the Hospital) is a city public hospital organized under Chapter 392.6 of the Code of Iowa and is considered a component unit of the City of Spencer, Iowa. The Hospital is governed by a five-member board of trustees elected by the residents of Spencer for terms of four years. The Hospital provides primary and secondary health care services through the operation of an acute care hospital in Spencer, Iowa, three medical clinics, and other comprehensive health care programs. The majority of the Hospital's patients are from Spencer and northwest Iowa. Effective July 1, 2015, the Hospital entered into a provider based relationship with a Spencer based family practice medical clinic, whereby the clinic became a department of the Hospital.

Reporting Entity

For financial reporting purposes, the Hospital has included all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. In accordance with Governmental Accounting Standards Board (GASB), the Hospital has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Hospital. These criteria also include organizations that are fiscally dependent on the Hospital.

Abben Cancer Center, LLC (Abben) is a legally separate wholly-owned limited liability company and is considered a discretely presented component unit of the Hospital. Abben was organized in 1996 and shall continue in existence until 2026 unless dissolved sooner in accordance with its operating agreement. Its financial statements are separately presented on pages 16 through 18. Abben is a medical clinic that operates a cancer treatment center on the Hospital's campus.

Avera Home Medical Equipment of Spencer Hospital, LLC (HME) is a legally separate limited liability company that the Hospital and Avera Home Medical Equipment, LLC formed in 2010. Each member owns 50% of HME and has an equal number of voting managers on its management committee. Due to the Hospital's lack of control over HME, it is not considered a component unit of the Hospital. HME sells home medical equipment from a retail location in Spencer.

Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP). Revenues are recognized when earned and expenses are recorded when the liability is incurred.

SPENCER MUNICIPAL HOSPITAL AND
ABBEN CANCER CENTER, LLC
NOTES TO FINANCIAL STATEMENTS - Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Measurement Focus and Basis of Accounting - Continued

The Hospital uses enterprise fund accounting as prescribed by the GASB where revenues and expenses are recognized on the accrual basis, using the economic resources measurement focus.

Abben's financial statements and related disclosures are prepared in accordance with GAAP as prescribed by the Financial Accounting Standards Board accounting standards.

Basis of Presentation

The statement of net position displays the Hospital's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as net position. Net position is reported in the following categories/components:

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of long-term debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted by donor - nonexpendable net position consist of the principal portion of permanent endowments.

Restricted by donor - expendable net position consist of noncapital net position that must be used for a particular purpose as specified by the donors.

Unrestricted net position consists of net position not meeting the definition of the three preceding categories. Unrestricted net position often has constraints on resources imposed by management or the board of trustees which can be removed or modified.

When both restricted and unrestricted net position are available for use, generally it is the Hospital's policy to use restricted net position first.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statements of cash flows, savings accounts, money market mutual funds, and all other highly liquid investments (including restricted assets) with original maturities of three months or less are considered cash equivalents.

SPENCER MUNICIPAL HOSPITAL AND
ABBen CANCER CENTER, LLC
NOTES TO FINANCIAL STATEMENTS - Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Patient Receivables - Net

The Hospital and Abben report patient accounts receivable for services rendered at net realizable amounts from third-party payors, patients, and others. Accounts receivable are reduced by an estimated allowance for uncollectible accounts. In evaluating the collectability of accounts receivable, the Hospital and Abben analyze their past history and identify trends for each of their major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, the Hospital and Abben analyze contractually due amounts and provide an allowance for uncollectible accounts and a provision for bad debts for those accounts over a certain age based on discharge that make the realization of amounts due unlikely. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), a significant provision for bad debts in the period of service on the basis of its past experience is recorded, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

Inventory

Inventory is valued at the lower of cost or market using the first-in, first-out method and consists primarily of patient supplies, including pharmaceuticals and operating supplies.

Noncurrent Cash and Investments and Fair Value

Noncurrent cash and investments include funds restricted by donors for capital improvements or specific operations of the Hospital; permanently endowed funds; and assets set aside by the Board of Trustees for identified purposes and over which the Board retains control and may, at its discretion, subsequently use for other purposes.

Permanent endowments require that the principal be retained in perpetuity.

Investments in common stocks, mutual funds, exchange traded funds (ETFs), and agricultural real estate are carried at fair value based on quoted market prices or third-party appraisals. Donated investments are reported at fair value at the date of receipt, which is then treated as cost.

The Hospital's investments in Abben and HME are accounted for by using the equity method, where the Hospital records its share of the earnings or losses. The investment in Abben was approximately \$256,000 greater than the underlying member's equity at June 30, 2016 and 2015. The difference is attributable to goodwill which is tested for impairment on an annual basis.

SPENCER MUNICIPAL HOSPITAL AND
ABBen CANCER CENTER, LLC
NOTES TO FINANCIAL STATEMENTS - Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Capital Assets

Capital assets are stated at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets in accordance with the guidelines set forth by the American Hospital Association. Lives for the buildings and land improvements are five to fifty years while the equipment lives range from three to twenty years.

Management reviews its long-lived assets used in operations for impairment when there is an event or change in circumstances that indicates an impairment in value. If such impairment is present, an impairment loss is recognized based on the excess of the carrying amount of the asset over its fair value.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future year(s) and will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

Operating Revenues and Expenses

The reporting of the Hospital and Abben's revenues and expenses distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services.

Net Patient Service Revenue

The Hospital and Abben have agreements with third-party payors that provide for payments at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors and a provision for uncollectable accounts. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

The Hospital and Abben recognize patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered, as noted above. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided or on the bases of discounted rates, if negotiated. On the basis of historical experience, a certain portion of uninsured patients will be unable or unwilling to pay for the services provided. As a result, the Hospital and Abben record a provision for bad debts related to uninsured patients in the period the services are provided.

SPENCER MUNICIPAL HOSPITAL AND
ABBEN CANCER CENTER, LLC
NOTES TO FINANCIAL STATEMENTS - Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Interest and Net Investment Income

Interest and investment income are recorded as nonoperating revenue and represent the net investment income or loss earned on the Hospital's various investments. Investment income includes dividends, net rental income, and gains and losses, both realized and unrealized, on equity securities and real estate, net of investment expenses.

Interest Expense

Interest costs incurred on borrowed funds during the construction period of capital assets were capitalized as a component of the constructed assets. All of the borrowings from revenue bonds have been used to fund construction projects and equipment purchases.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported as fair value.

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future year(s) and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources in the Statement of Net Position consists of the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

Charity Care and Community Benefits

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. The Hospital maintains records to identify and monitor the level of charity it provides. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue. The amount of charges forgone, based on established rates, for 2016 and 2015, were \$229,248 and \$132,875, respectively. The costs of charity care are estimated to be \$75,000 and \$47,000 for 2016 and 2015, respectively. Costs are estimated by using the most recent cost to charge ratio available at the end of the year.

The Hospital provides many services that are operated at a loss for the benefit of the communities it serves. Many of these programs are offered at no cost; a few are offered for a minimal service fee. Services offered for the benefit of these communities include: emergency services coverage at community events, wellness screenings, job shadowing/internships, various health education classes, public safety awareness programs, support groups, and providing the use of facilities to community groups.

SPENCER MUNICIPAL HOSPITAL AND
 ABBEN CANCER CENTER, LLC
 NOTES TO FINANCIAL STATEMENTS - Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Charity Care and Community Benefits - Continued

In addition, many routine services are provided by the Hospital at a loss. These include: Ambulance Services, Cardiac/Pulmonary Rehabilitation, Home Health and Public Health Programs, Inpatient Mental Health, Best Care for Better Babies, Women's Health, Rehabilitation Services (Physical, Occupational, and Speech), Family Practice Clinics in Spencer, Milford and Sioux Rapids, Hospitalist program, and Diabetic Education.

Income Taxes

The Hospital is exempt from federal and state income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code of 1986.

Abben is not a tax paying entity for federal and state income tax purposes and all of its net income is attributable to the Hospital and is therefore tax exempt.

Management's Review

In preparation of the financial statements, management has evaluated subsequent events through October 3, 2016, which is the date the financial statements were available to be issued.

2. CASH AND INVESTMENTS

The Hospital's deposits at June 30, 2016 and 2015 were entirely covered by FDIC or SIPC insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against members of the pool to insure there will be no loss of public funds. At June 30, 2016 and 2015, Abben had \$34,264 and \$5,558 in uninsured bank balances, respectively.

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees of the Hospital; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies (mutual funds); certain joint investment trusts; investments in common stocks including ETFs; and warrants or improvement certificates of a drainage district.

The Hospital's cash and investments at June 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u> <u>(Restated)</u>
Cash and cash equivalents	\$33,069,494	\$32,906,522
Mutual funds and ETFs	12,428,364	12,023,854
Agricultural real estate	3,304,000	3,521,200
Education revolving loan fund	<u>10,446</u>	<u>12,068</u>
 TOTAL CASH AND INVESTMENTS	 <u>\$48,812,304</u>	 <u>\$48,463,644</u>

SPENCER MUNICIPAL HOSPITAL AND
 ABBEN CANCER CENTER, LLC
 NOTES TO FINANCIAL STATEMENTS - Continued

2. CASH AND INVESTMENTS - Continued

The cash and investments shown above are included in the Hospital's statements of financial position as follows:

	<u>2016</u>	<u>2015</u> (Restated)
Current assets:		
Cash and cash equivalents	\$32,282,273	\$32,207,670
Mutual funds and ETFs	<u>12,017,453</u>	<u>11,876,835</u>
Subtotal	<u>44,299,726</u>	<u>44,084,505</u>
Noncurrent cash and investments:		
Cash and cash equivalents	787,221	698,852
Mutual funds and ETFs	410,911	147,019
Agricultural real estate	3,304,000	3,521,200
Education revolving loan fund	<u>10,446</u>	<u>12,068</u>
Subtotal	<u>4,512,578</u>	<u>4,379,139</u>
 TOTAL CASH AND INVESTMENTS	 <u>\$48,812,304</u>	 <u>\$48,463,644</u>

Mutual funds, ETFs, and agricultural real estate investments are carried at fair value. The net unrealized gains (losses) on investments at June 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u> (Restated)
Mutual funds and ETFs	\$ (201,272)	\$ 1,193,254
Agricultural real estate	<u>3,045,230</u>	<u>3,260,730</u>
 Net unrealized gain	 <u>\$ 2,843,958</u>	 <u>\$ 4,453,984</u>

Net investment income (loss) consisted of the following:

	<u>2016</u>	<u>2015</u> (Restated)
Unrealized gains (losses) on mutual funds and ETFs	\$ (1,394,526)	\$ 181,112
Unrealized (losses) on agricultural real estate	(215,500)	(256,500)
Realized gains on mutual funds and ETFs	1,094,647	82,491
Dividend income	319,671	226,945
Rental income - net of expenses	<u>147,113</u>	<u>58,828</u>
 NET INVESTMENT INCOME (LOSS)	 <u>\$ (48,595)</u>	 <u>\$ 292,876</u>

In accordance with its investment policy, the Hospital manages its exposure to declines in fair values by owning investments with various maturities. These investments include fixed money market accounts, certificates of deposit, and equity securities. The Hospital's philosophy for investing funds allows for fluctuation in yearly returns without putting the Hospital's ability to meet current expenditures at risk.

SPENCER MUNICIPAL HOSPITAL AND
 ABBEN CANCER CENTER, LLC
 NOTES TO FINANCIAL STATEMENTS - Continued

2. CASH AND INVESTMENTS - Continued

The Hospital's investment policy also limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Hospital.

3. FAIR VALUE MEASUREMENTS OF INVESTMENTS

The Hospital's investments are reported at fair value. Accounting standards have established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs consist of unobservable inputs where there is little or no market data and have the lowest priority. The Hospital uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. Level 1 investments are valued at quoted market prices for identical assets; Level 2 investments are valued based upon a third-party valuation for similar real estate; and Level 3 investments are valued at net collectible balances.

The following table presents the fair values of the Hospital's investments as separated by the levels.

	<u>2016</u>	<u>2015</u>
Level 1:		
Mutual funds and ETFs	\$12,428,364	\$12,023,854
Level 2:		
Agricultural real estate	3,304,000	3,521,200
Level 3:		
Education revolving loan fund	<u>10,446</u>	<u>12,068</u>
TOTAL INVESTMENTS	<u>\$15,742,810</u>	<u>\$15,557,122</u>

4. NET PATIENT SERVICE REVENUE

As a provider of health care services, the Hospital and Abben have agreements with third-party payors that provide for payment of services at amounts different from established rates. The basis for payment varies by payor and includes prospectively determined rates per discharge, discounts from established charges, and retroactively determined cost-based rates. Approximately 95 percent of the Hospital's gross patient charges determined at established rates for the years ended June 30, 2016 and 2015 resulted from patients covered by these third-party reimbursement programs. Significant changes have been made and may be made in certain of these programs which could have a material adverse impact on the financial condition of the Hospital and Abben in future years.

SPENCER MUNICIPAL HOSPITAL AND
ABBen CANCER CENTER, LLC
NOTES TO FINANCIAL STATEMENTS - Continued

4. NET PATIENT SERVICE REVENUE - Continued

The following summarizes the differences between the Hospital's and Abben's gross patient service revenue determined at established rates and net patient service revenue:

	Hospital	
	<u>2016</u>	<u>2015</u>
Gross patient service revenue - at established rates	<u>\$193,376,529</u>	<u>\$176,787,554</u>
Adjustments:		
Medicare program	73,938,649	67,960,386
Medicaid program	12,292,816	11,835,055
Blue Cross/Wellmark	24,691,325	20,988,715
Other payors	7,903,299	5,014,081
Charity care	229,248	132,875
Bad debts	<u>2,550,995</u>	<u>1,727,831</u>
Total Adjustments	<u>121,606,332</u>	<u>107,658,943</u>
Net Patient Service Revenue	<u>\$ 71,770,197</u>	<u>\$ 69,128,611</u>

	Abben	
	<u>2016</u>	<u>2015</u>
Gross patient service revenue - at established rates	<u>\$ 9,149,749</u>	<u>\$ 10,511,467</u>
Adjustments:		
Medicare program	4,196,081	5,248,648
Other payors	2,132,092	2,244,538
Charity care	2,308	2,073
Bad debts (recoveries)	<u>(2,391)</u>	<u>6,665</u>
Total Adjustments	<u>6,328,090</u>	<u>7,501,924</u>
Net Patient Service Revenue	<u>\$ 2,821,659</u>	<u>\$ 3,009,543</u>

5. PATIENT RECEIVABLES - NET

The Hospital and Abben grant credit without collateral to their patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2016 and 2015 was:

	Hospital		Abben	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Medicare	\$13,669,979	\$10,608,086	\$255,748	\$181,504
Medicaid program	5,701,277	3,463,602	12,679	11,518
Blue Cross/Wellmark	5,680,734	5,500,626	385,908	124,672
Other payors	8,243,537	6,794,358	124,437	126,659
Provider based clinic	880,923	-	-	-
Clinics	<u>94,318</u>	<u>107,138</u>	<u>-</u>	<u>-</u>
Total patient receivables	34,270,768	26,473,810	778,772	444,353
Less allowance for doubtful accounts and contractual adjustments.....	<u>21,158,132</u>	<u>16,240,500</u>	<u>471,900</u>	<u>310,100</u>
Patient Receivables - Net	<u>\$13,112,636</u>	<u>\$10,233,310</u>	<u>\$306,872</u>	<u>\$134,253</u>

SPENCER MUNICIPAL HOSPITAL AND
ABBEY CANCER CENTER, LLC
NOTES TO FINANCIAL STATEMENTS - Continued

6. CAPITAL ASSETS

A summary of the Hospital's changes in capital assets for 2016 and 2015 is as follows:

	Year Ended June 30, 2016			
	Beginning Balance	Additions	Disposals and Transfers - Net	Ending Balance
Capital assets not being depreciated:				
Land	\$ 2,906,450	\$ -	\$ -	\$ 2,906,450
Construction in progress	<u>859,092</u>	<u>6,284,967</u>	<u>(1,677,066)</u>	<u>5,466,993</u>
Total capital assets not being depreciated	<u>3,765,542</u>	<u>6,284,967</u>	<u>(1,677,066)</u>	<u>8,373,443</u>
Other capital assets:				
Land improvements	1,852,451	108,655	97,803	2,058,909
Buildings	55,718,974	58,758	144,983	55,922,715
Fixed equipment	10,947,408	35,059	99,439	11,081,906
Major moveable equipment	<u>39,389,819</u>	<u>795,484</u>	<u>1,201,375</u>	<u>41,386,678</u>
Total other capital assets	<u>107,908,652</u>	<u>997,956</u>	<u>1,543,600</u>	<u>110,450,208</u>
Total capital assets	<u>111,674,194</u>	<u>7,282,923</u>	<u>(133,466)</u>	<u>118,823,651</u>
Less accumulated depreciation for:				
Land improvements	1,192,733	95,800	-	1,288,533
Buildings	21,516,164	1,914,042	-	23,430,206
Fixed equipment	7,553,931	480,750	-	8,034,681
Major moveable equipment	<u>28,898,652</u>	<u>3,072,017</u>	<u>(121,505)</u>	<u>31,849,164</u>
Total accumulated depreciation	<u>59,161,480</u>	<u>5,562,609</u>	<u>(121,505)</u>	<u>64,602,584</u>
CAPITAL ASSETS - NET	<u>\$ 52,512,714</u>	<u>\$ 1,720,314</u>	<u>\$ (11,961)</u>	<u>\$ 54,221,067</u>
	Year Ended June 30, 2015			
	Beginning Balance	Additions	Disposals and Transfers - Net	Ending Balance
Capital assets not being depreciated:				
Land	\$ 2,460,747	\$ 445,703	\$ -	\$ 2,906,450
Construction in progress	<u>134,274</u>	<u>2,277,764</u>	<u>(1,552,946)</u>	<u>859,092</u>
Total capital assets not being depreciated	<u>2,595,021</u>	<u>2,723,467</u>	<u>(1,552,946)</u>	<u>3,765,542</u>
Other capital assets:				
Land improvements	1,812,260	14,940	25,251	1,852,451
Buildings	52,762,780	2,755,631	200,563	55,718,974
Fixed equipment	10,688,876	81,621	176,911	10,947,408
Major moveable equipment	<u>35,794,573</u>	<u>2,705,129</u>	<u>890,117</u>	<u>39,389,819</u>
Total other capital assets	<u>101,058,489</u>	<u>5,557,321</u>	<u>1,292,842</u>	<u>107,908,652</u>
Total capital assets	<u>103,653,510</u>	<u>8,280,788</u>	<u>(260,104)</u>	<u>111,674,194</u>
Less accumulated depreciation for:				
Land improvements	1,106,126	86,607	-	1,192,733
Buildings	19,627,560	1,888,659	(55)	21,516,164
Fixed equipment	7,054,644	499,287	-	7,553,931
Major moveable equipment	<u>25,731,979</u>	<u>3,210,730</u>	<u>(44,057)</u>	<u>28,898,652</u>
Total accumulated depreciation	<u>53,520,309</u>	<u>5,685,283</u>	<u>(44,112)</u>	<u>59,161,480</u>
CAPITAL ASSETS - NET	<u>\$ 50,133,201</u>	<u>\$ 2,595,505</u>	<u>\$ (215,992)</u>	<u>\$ 52,512,714</u>

SPENCER MUNICIPAL HOSPITAL AND
 ABBEN CANCER CENTER, LLC
 NOTES TO FINANCIAL STATEMENTS - Continued

7. LONG-TERM DEBT

The Hospital's long-term debt activity as of and for the years ended June 30, 2016 and 2015 is as follows:

	June 30, <u>2015</u>	<u>Payments</u>	June 30, <u>2016</u>	Due Within <u>One Year</u>
Hospital Revenue Bonds Series 2008 A (A)	\$3,151,906	\$ (852,004)	\$2,299,902	\$ 890,122
Hospital Revenue Bonds Series 2008 B (B)	<u>2,584,358</u>	<u>(691,188)</u>	<u>1,893,170</u>	<u>728,093</u>
	<u>\$5,736,264</u>	<u>\$(1,543,192)</u>	<u>\$4,193,072</u>	<u>\$1,618,215</u>

	June 30, <u>2014</u>	<u>Payments</u>	June 30, <u>2015</u>	Due Within <u>One Year</u>
Hospital Revenue Bonds Series 2008 A (A)	\$3,968,008	\$ (816,102)	\$3,151,906	\$ 852,004
Hospital Revenue Bonds Series 2008 B (B)	<u>3,241,077</u>	<u>(656,719)</u>	<u>2,584,358</u>	<u>691,188</u>
	<u>\$7,209,085</u>	<u>\$(1,472,821)</u>	<u>\$5,736,264</u>	<u>\$1,543,192</u>

(A) The Series 2008A bonds are payable in monthly principal and interest payments of \$81,049 at a fixed interest rate of 4.29% through December 2018.

(B) The Series 2008B bonds are payable in monthly principal and interest payments of \$67,410 at a fixed interest rate of 5.10% through December 2018.

The maturities and payment components of the Hospital's long-term debt are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$1,618,215	\$163,295	\$1,781,510
2018	1,696,266	85,244	1,781,510
2019	<u>878,591</u>	<u>12,184</u>	<u>890,775</u>
TOTAL	<u>\$4,193,072</u>	<u>\$260,723</u>	<u>\$4,453,795</u>

The revenue bonds were issued under the provisions of Chapter 384.24A of the Code of Iowa and as such the principal and interest payments are payable solely from the revenues of the Hospital and do not constitute a liability or obligation of the City of Spencer. The bond proceeds have been used to finance building additions, building improvements, and purchase medical equipment.

The Hospital has pledged future revenues, net of defined expenses, to repay the bonds. The net pledged revenues, as defined in the bond document, and the principal and interest requirements for the Hospital's long-term debt are as follows:

	<u>2016</u>	<u>2015</u>
Net pledged revenues	<u>\$ 9,117,167</u>	<u>\$11,440,102</u>
Principal and interest requirements	<u>\$ 1,781,510</u>	<u>\$ 1,781,510</u>

SPENCER MUNICIPAL HOSPITAL AND
ABBEN CANCER CENTER, LLC
NOTES TO FINANCIAL STATEMENTS - Continued

8. PENSION PLAN

Plan Description - Iowa Public Employees' Retirement System (IPERS) membership is mandatory for employees of the Hospital, except for those covered by another retirement system. Employees of the Hospital are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by IPERS. IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, PO Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits

A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except for members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

Protection occupation members may retire at normal retirement age, which is generally at age 55. The formula used to calculate a protection occupation members' monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for years of service greater than 22 but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

SPENCER MUNICIPAL HOSPITAL AND
 ABBEN CANCER CENTER, LLC
 NOTES TO FINANCIAL STATEMENTS - Continued

8. PENSION PLAN - Continued

Disability and Death Benefits

A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions

The contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

The contribution rates as a percent of pay for 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Regular members' rates	5.95%	5.95%
Hospital rates	<u>8.93</u>	<u>8.93</u>
Total	<u>14.88%</u>	<u>14.88%</u>
Protection occupation members' rates	6.56%	6.76%
Hospital rates	<u>9.84</u>	<u>10.14</u>
Total	<u>16.40%</u>	<u>16.90%</u>
Hospital's Total Contributions	<u>\$2,040,161</u>	<u>\$1,976,514</u>

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the Hospital reported a liability of \$15,466,675 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Hospital's proportion of the net pension liability was based on the Hospital's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the Hospital's proportion was .313060%, which was a decrease of 0.004846% from its proportion measured as of June 30, 2014.

SPENCER MUNICIPAL HOSPITAL AND
 ABBEN CANCER CENTER, LLC
 NOTES TO FINANCIAL STATEMENTS - Continued

8. PENSION PLAN - Continued

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - Continued

For the year ended June 30, 2016, the Hospital recognized pension expense of \$1,075,834. At June 30, 2016, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 234,736	\$ 13,403
Changes of assumptions	427,756	206
Net difference between projected and actual earnings on IPERS' investments	2,384,991	3,709,603
Changes in proportion and differences between Hospital contributions and the Hospital's proportionate share of contributions	-	889,611
Hospital contributions subsequent to the measurement date	<u>2,040,161</u>	<u>-</u>
Total	<u>\$5,087,644</u>	<u>\$4,612,823</u>

\$2,040,161 reported as deferred outflows of resources related to pensions resulting from Hospital contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ (715,791)
2018	(715,791)
2019	(715,791)
2020	580,520
2021	<u>1,513</u>
	<u><u>\$(1,565,340)</u></u>

There were no non-employer contributing entities at IPERS.

SPENCER MUNICIPAL HOSPITAL AND
ABBEY CANCER CENTER, LLC
NOTES TO FINANCIAL STATEMENTS - Continued

8. PENSION PLAN - Continued

**Net Pension Liabilities, Pension Expense, and Deferred Outflows of
Resources and Deferred Inflows of Resources Related to Pensions - Continued**

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation (effective June 30, 2014)	3.00% per annum
Rates of salary increases (effective June 30, 2010)	4.00% to 17.00%, average, including inflation. Rates vary by membership group.
Long-term Investment rate of return (effective June 30, 1996)	7.50%, compounded annually, net of investment expense, including inflation
Wage growth (effective June 30, 1990)	4.00% per annum based on 3.00% inflation and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Core plus fixed income	28%	2.04%
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	<u>1</u>	(.71)
Total	<u>100%</u>	

SPENCER MUNICIPAL HOSPITAL AND
 ABBEN CANCER CENTER, LLC
 NOTES TO FINANCIAL STATEMENTS - Continued

8. PENSION PLAN - Continued

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - Continued

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the Hospital will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Hospital's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Hospital's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the Hospital's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

	1% Decrease <u>6.5%</u>	Discount Rate <u>7.5%</u>	1% Increase <u>8.5%</u>
Hospital's proportionate share of the net pension liability	\$27,403,370	\$15,466,675	\$5,391,662

Pension Plan Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to the Pension Plan

At June 30, 2016, the Hospital reported payables to IPERS of \$256,852 for legally required employer contributions and for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS. The amount was remitted to IPERS in July 2016.

9. OTHER POST EMPLOYMENT BENEFITS

Health Insurance

Plan Description - In accordance with state law, the Hospital operates a single-employer retiree benefit plan which provides medical/prescription drug and dental benefits for retirees and their spouses. There are 466 active and 19 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug and dental benefit plans are self-insured and are administered by a third party. Retirees under age 65 pay 100% of the full active employee premium rates. This results in an implicit subsidy and an Other Post Employment Benefit (OPEB) liability.

SPENCER MUNICIPAL HOSPITAL AND
 ABBEN CANCER CENTER, LLC
 NOTES TO FINANCIAL STATEMENTS - Continued

9. OTHER POST EMPLOYMENT BENEFITS - Continued

Funding Policy - The contribution requirements of the plan members are established and may be amended by the Hospital. The Hospital currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The Hospital's annual OPEB cost is calculated based on the annual required contribution (ARC) of the Hospital, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the Hospital's annual OPEB cost for 2016 and 2015 the amount actually contributed to the plan, and changes in the Hospital's net OPEB obligation:

	<u>2016</u>	<u>2015</u>
Annual required contribution, ARC	\$ 89,898	\$ 97,311
Interest on net OPEB obligation	10,347	14,813
Adjustment to annual required contribution	<u>(14,116)</u>	<u>(20,208)</u>
Annual OPEB cost	86,129	91,916
(Contributions made) claims paid	<u>(248,085)</u>	<u>(191,147)</u>
Increase (decrease) in net OPEB obligation	(161,956)	(99,231)
Net OPEB obligation - beginning of year	<u>229,938</u>	<u>329,169</u>
Net OPEB obligation - end of year	<u>\$ 67,982</u>	<u>\$229,938</u>

For calculation of the net OPEB obligation, the actuary has set the transition date as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2016.

For the year ended June 30, 2016, the Hospital had actual contributions in excess of claims of \$248,085. The Hospital's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2016 are summarized as follows:

Fiscal Year Ended <u>June 30,</u>	Annual <u>OPEB Cost</u>	Percentage of Annual OPEB <u>Cost Contributed</u>	Net OPEB <u>Obligation</u>
2016	\$ 86,129	(288)%	\$ 67,982
2015	91,916	(208)%	229,938
2014	92,561	57%	329,169

SPENCER MUNICIPAL HOSPITAL AND
ABBEN CANCER CENTER, LLC
NOTES TO FINANCIAL STATEMENTS - Continued

9. OTHER POST EMPLOYMENT BENEFITS - Continued

Funding Status and Funding Progress - As of January 1, 2016, the most recent actuarial valuation report, which provides actuarial liabilities as of July 1, 2015, for the period July 1, 2015 through June 30, 2016, the actuarial accrued liability was \$937,338 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$937,338. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$23,230,000, and the ratio of the UAAL to the covered payroll was 4.0%. As of June 30, 2016 and 2015, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for the Retiree Health Plan, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan member to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the January 1, 2016 actuarial valuation report, which provides actuarial liabilities as of July 1, 2015, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5% discount rate based on the Hospital's funding policy. The projected annual medical trend rate is 5% for all years.

Mortality rates are from the RP2014 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the Actuary's Pension Handbook.

Projected claim costs of the medical plan are approximately \$1,198 per month for retirees. The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level dollar amount on an open basis over a period of 30 years.

Employee Agreements - The Hospital has entered into agreements with a senior executive that include various post-employment benefits that have been accrued for in the financial statements.

SPENCER MUNICIPAL HOSPITAL AND
ABBEY CANCER CENTER, LLC
NOTES TO FINANCIAL STATEMENTS - Continued

10. RISK MANAGEMENT

The Hospital and Abben are exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illness; natural disasters; and employee health and accident benefits. Certain of these risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

The Hospital is self-insured for the following types of risk exposures:

Health Benefits

The Hospital has established an Employee Health Insurance Plan that self insures health benefits. Self-insurance is in effect up to a specific stop loss amount of \$70,000 per individual and an aggregate stop loss amount of approximately \$4.9 million. Coverage from private insurance companies is maintained for losses in excess of the aggregate stop loss amount up to a maximum of \$1,000,000 per policy period. Claims handling procedures are performed by an independent claims administrator. Losses are accrued based upon the Hospital's estimates of the aggregate liability for claims incurred using certain assumptions followed in the insurance industry and based on the Hospital's experience. The amounts of unpaid claims included in the financial statements were \$486,032 and \$392,516 at June 30, 2016 and 2015, respectively, and are included in other current liabilities.

Unemployment Compensation

The Hospital is also self-insured for unemployment compensation claims. Unemployment is charged quarterly as the state assesses the Hospital based upon actual claims paid.

11. RELATED PARTY TRANSACTIONS

Spencer Regional Healthcare Foundation

The Spencer Regional Healthcare Foundation (Foundation) is a tax-exempt non-profit organization established to solicit contributions for qualifying health care facilities within a 20-mile radius of Spencer, Iowa. The Foundation is governed by an independent board, but it does include a minority number of members from the Hospital board; accordingly, the Hospital and the Foundation are considered related parties. Management has determined that the economic resources received from or held by the Foundation are not significant to the Hospital. Therefore, the Foundation is not reported with the Hospital under GASB standards. The Foundation made charitable contributions to the Hospital in the amount of \$-0- and \$387,903 during 2016 and 2015, respectively.

SPENCER MUNICIPAL HOSPITAL AND
 ABBEN CANCER CENTER, LLC
 NOTES TO FINANCIAL STATEMENTS - Continued

11. RELATED PARTY TRANSACTIONS - Continued

Abben Cancer Center, LLC

The Hospital has entered into various agreements with Abben whereby the Hospital will provide management and operating services and lease a building and related equipment to Abben. The agreements include defined methodologies to calculate the rates and are cancelable by either party 90 days prior to the anniversary date of the agreements. The following summarizes the transactions with Abben:

	<u>2016</u>	<u>2015</u>
Personnel service fees for benefits and expenses	\$ <u>147,033</u>	\$ <u>186,821</u>
Leased employees' salaries	\$ <u>433,221</u>	\$ <u>428,639</u>
Building and equipment rental income	\$ <u>490,428</u>	\$ <u>715,352</u>

At June 30, 2016 and 2015, the Hospital's receivable from Abben was \$216,028 and \$218,463, respectively, which is included in other receivables. The balance consists of the above fees and cash advances for direct operating expenses less cash repayments.

Board of Trustees

The Hospital has depository accounts at local financial institutions who are affiliated with two Hospital trustees. The Hospital earned interest income of \$2,250 and \$5,990 in 2016 and 2015, respectively, on accounts held at these financial institutions.

The Hospital purchased supplies of \$75,235 and \$7,911 from companies separately owned in part by Hospital trustees in 2016 and 2015, respectively.

The Hospital incurred farm management fees of \$6,686 and \$5,834 from a company owned in part by a Hospital trustee in 2016 and 2015, respectively.

12. OPERATING LEASES

The Hospital has entered into noncancelable operating lease agreements involving two medical clinics and medical equipment. The Hospital has exercised its renewal options which have extended the leases to various dates through fiscal year 2021. The rental expense for 2016 and 2015 was \$591,798 and \$595,503, respectively.

The following is a schedule of future minimum rental payments to be made:

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 708,222
2018	764,300
2019	751,750
2020	295,752
2021	<u>153,414</u>
TOTAL	<u>\$2,673,438</u>

SPENCER MUNICIPAL HOSPITAL AND
 ABBEN CANCER CENTER, LLC
 NOTES TO FINANCIAL STATEMENTS - Continued

12. OPERATING LEASES - Continued

The Hospital leases office space in its medical office building to unrelated parties under noncancelable operating lease agreements. The terms of the leases expire at various dates through fiscal year 2022 and have optional renewal clauses with annual rental increase provisions to recover increased expenses. The rental income under the agreements for 2016 and 2015 was \$405,940 and \$723,642, respectively, and is included in investment income.

The following is a schedule of future minimum rental payments to be received, including the subleases:

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 394,741
2018	82,308
2019	77,457
2020	48,172
2021	42,639
2022	<u>3,300</u>
TOTAL	<u>\$ 648,617</u>

The cost and accumulated depreciation of the leased property, including the property leased to Abben are as follows:

	<u>2016</u>	<u>2015</u>
Medical office buildings	\$ 4,239,459	\$ 3,866,606
Medical clinic equipment	82,666	80,296
Abben building	2,864,695	2,864,695
Abben equipment	4,055,594	4,053,483
Residential property	<u>414,999</u>	<u>391,599</u>
Total property and equipment	11,657,413	11,256,679
Less accumulated depreciation	<u>6,510,811</u>	<u>5,900,984</u>
 Net property and equipment	 <u>\$ 5,146,602</u>	 <u>\$ 5,355,695</u>

13. COMMITMENTS

The Hospital has committed to construct or purchase various capital improvement projects totaling approximately \$1,900,000, which are expected to be funded using current cash reserves.

The Hospital has also entered into other agreements that have committed it to future payments. The commitments include binding purchase orders, supplemental payments to physicians' groups, equipment maintenance agreements, service agreements, and physician recruiting agreements. As of June 30, 2016, the total amount expected to be paid on these commitments is approximately \$3,100,000 with the majority to be paid in 2017.

SPENCER MUNICIPAL HOSPITAL AND
 ABBEN CANCER CENTER, LLC
 NOTES TO FINANCIAL STATEMENTS - Continued

14. ACCOUNTING CHANGE/RESTATEMENT

The Hospital adopted fair value guidance as set forth in Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*. The Statement sets forth guidance for determining and disclosing the fair value of assets and liabilities reported in the financial statements. The Statement required its provisions be applied retrospectively, when practical. Accordingly, the Hospital adopted the Statement in fiscal year 2015 which requires certain amounts to be restated.

Beginning net position for 2015 was restated to retroactively report the fair value of the agricultural real estate as follows:

	Net Position
Net position June 30, 2014, as previously reported	\$78,042,912
Fair value adjustment for agricultural real estate at June 30, 2014	<u>2,196,336</u>
Net position July 1, 2014, as restated	<u>\$80,239,248</u>

As a result of adopting this accounting standard, the following 2015 balances were restated:

	As Previously Reported	Restatement Adjustment	As Restated
Statement of Net Position:			
Internally designated investment	<u>\$ 266,848</u>	<u>\$ 2,033,336</u>	<u>\$ 2,300,184</u>
Unrestricted net position	<u>\$37,639,345</u>	<u>\$ 2,033,336</u>	<u>\$39,672,681</u>
Total net position	<u>\$86,494,751</u>	<u>\$ 2,033,336</u>	<u>\$88,528,087</u>
Statement of Revenues, Expenses, and Changes in Net Position:			
Investment income - net of related expenses	<u>\$ 455,876</u>	<u>\$ (163,000)</u>	<u>\$ 292,876</u>
Change in net position	<u>\$ 8,451,839</u>	<u>\$ (163,000)</u>	<u>\$ 8,288,839</u>

15. SUBSEQUENT EVENT

In August 2016, the Hospital agreed to transfer restricted cash funds of approximately \$193,000 designated for hospice operations to the Foundation. The Foundation will be bound by the same donor restrictions as the Hospital. The transfer was completed in September 2016.

**SPENCER MUNICIPAL HOSPITAL
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2016**

SPENCER MUNICIPAL HOSPITAL
BUDGETARY COMPARISON SCHEDULE AND RELATED NOTES
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Original Budgeted Amounts</u>	<u>Amended Budgeted Amounts</u>	<u>Actual Accrual Basis</u>	<u>Budget to Actual Variance</u>
Operating revenues	\$72,341,986	\$85,115,217	\$85,859,977	\$ 744,760
Operating expenditures	<u>69,067,708</u>	<u>80,650,725</u>	<u>79,676,017</u>	<u>974,708</u>
Operating income	3,274,278	4,464,492	6,183,960	1,719,468
Other nonoperating changes in net position	<u>692,500</u>	<u>692,500</u>	<u>138,263</u>	<u>(554,237)</u>
Changes in Net Position	<u>\$ 3,966,778</u>	<u>\$ 5,156,992</u>	<u>\$ 6,322,223</u>	<u>\$1,165,231</u>

NOTES

1. This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences.
2. The Hospital Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital on the accrual basis following required public notice and hearing in accordance with Chapters 24 and 392.6 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate city officials. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.
3. For 2016, the Hospital's expenditures did not exceed the amount budgeted.

SPENCER MUNICIPAL HOSPITAL
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Iowa Public Employees' Retirement System
For the Last Two Years*
(Dollar amounts in thousands)

Required Supplementary Information

	<u>2016</u>	<u>2015</u>
Hospital's proportion of the net pension liability (asset)313060%	.317906%
Hospital's proportionate share of the net pension liability (asset) ...	\$ 15,467	\$ 12,608
Hospital's covered-employee payroll	\$ 23,208	\$ 22,152
Hospital's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	66.65%	56.92%
Plan fiduciary net position as a percentage of the total pension liability	85.19%	87.61%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding year.

SPENCER MUNICIPAL HOSPITAL
SCHEDULE OF HOSPITAL CONTRIBUTIONS

Iowa Public Employees' Retirement System
Last 10 Fiscal Years
(Dollar amounts in thousands)

Required Supplementary Information

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Statutorily required contribution	\$ 2,040	\$ 1,977	\$ 1,935	\$ 1,959	\$ 1,759	\$ 1,490	\$ 1,404	\$ 1,278	\$ 1,209	\$ 1,144
Contributions in relation to the statutorily required contribution	(2,040)	(1,977)	(1,935)	(1,959)	(1,759)	(1,490)	(1,404)	(1,278)	(1,209)	(1,144)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Hospital's covered-employee payroll	\$ 24,120	\$ 23,208	\$ 22,152	\$ 23,048	\$ 22,735	\$ 22,417	\$ 22,139	\$ 21,172	\$ 21,002	\$ 20,383
Contributions as a percentage of covered-employee payroll	8.46%	8.52%	8.74%	8.50%	7.74%	6.65%	6.34%	6.04%	5.76%	5.61%

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION LIABILITY
YEAR ENDED JUNE 30, 2016

1. CHANGES OF BENEFIT TERMS

Legislation enacted in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups - emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers - from Regular membership to the protection occupation group for future service only.

2. CHANGES OF ASSUMPTIONS

The 2014 valuation implemented the following refinements as a result of quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 years period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

SPENCER MUNICIPAL HOSPITAL
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN

REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
2010	July 1, 2009	-	\$ 662,439	\$ 662,439	0%	\$17,710,000	3.7%
2011	July 1, 2009	-	\$ 662,439	\$ 662,439	0%	\$17,710,000	3.7%
2012	July 1, 2011	-	\$ 764,554	\$ 764,554	0%	\$18,840,000	4.1%
2013	July 1, 2011	-	\$ 764,554	\$ 764,554	0%	\$19,159,000	4.0%
2014	July 1, 2013	-	\$1,141,505	\$1,141,505	0%	\$21,168,000	5.4%
2015	July 1, 2013	-	\$1,141,505	\$1,141,505	0%	\$21,862,000	5.2%
2016	July 1, 2015	-	\$ 937,338	\$ 937,338	0%	\$23,230,000	4.0%

See Note 9 in the accompanying Notes to Financial Statements for plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status, and funding progress.

**SPENCER MUNICIPAL HOSPITAL
SUPPLEMENTAL INFORMATION
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

SPENCER MUNICIPAL HOSPITAL
GROSS PATIENT SERVICE REVENUE
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016				2015	
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Skilled Care</u>	<u>Home Health</u>	<u>Total</u>	<u>Total</u>
DAILY PATIENT SERVICE:						
Medical and surgery.....	\$ 6,601,548	\$ 1,630,145	\$ 13,418	\$ -	\$ 8,245,111	\$ 7,402,508
Mental health.....	2,952,667	7,262	3,555	-	2,963,484	3,402,375
Nursery.....	513,493	-	-	-	513,493	499,397
Intensive care.....	1,735,264	117,030	-	-	1,852,294	1,481,728
Hospitalist.....	762,885	113,178	43,255	-	919,318	-
Skilled care.....	-	-	601,519	-	601,519	439,333
TOTAL DAILY PATIENT SERVICES	12,565,857	1,867,615	661,747	-	15,095,219	13,225,341
OTHER NURSING SERVICES:						
Same day surgery.....	31,669	3,377,658	1,068	-	3,410,395	3,275,996
Intravenous therapy.....	627,064	1,315,808	26,041	-	1,968,913	2,046,560
Delivery and labor rooms.....	842,604	403,794	-	-	1,246,398	1,355,222
Operating rooms.....	6,713,761	35,163,746	25,031	-	41,902,538	38,091,789
Post anesthesia care unit.....	791,341	2,548,375	7,341	-	3,347,057	3,325,417
Emergency service.....	1,639,778	9,240,509	2,323	-	10,882,610	9,654,410
Medical supplies.....	12,936,748	5,471,379	22,924	-	18,431,051	19,014,130
Medical oncology.....	18,127	5,306,710	1,327	-	5,326,164	4,552,230
TOTAL OTHER NURSING SERVICES	23,601,092	62,827,979	86,055	-	86,515,126	81,315,754
OTHER PROFESSIONAL SERVICES:						
Respiratory therapy.....	1,027,829	183,517	43,078	-	1,254,424	1,172,841
Ambulance.....	-	2,456,589	-	-	2,456,589	2,178,693
Telemedicine.....	1,902	4,311	127	-	6,340	-
Laboratory.....	3,859,277	7,494,765	100,841	-	11,454,883	10,251,354
Blood bank.....	124,322	77,766	1,669	-	203,757	321,153
Electrocardiology.....	669,942	1,410,177	1,801	-	2,081,920	1,748,083
Electroencephalography.....	2,603	37,665	-	-	40,268	25,128
Radiology.....	947,934	4,905,539	17,276	-	5,870,749	5,886,445
Ultrasound.....	168,263	2,653,803	4,990	-	2,827,056	2,804,685
Stereotactic biopsy.....	-	367,933	-	-	367,933	511,028

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
GROSS PATIENT SERVICE REVENUE - Continued
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016				2015 <u>Total</u>
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Skilled Care</u>	<u>Home Health</u>	<u>Total</u>
OTHER PROFESSIONAL SERVICES-					
Continued:					
CT scan.....	\$ 1,141,191	\$ 10,323,401	\$ 17,356	\$ -	\$ 11,481,948
MRI.....	207,444	3,049,390	11,278	-	3,268,112
Nuclear medicine.....	33,598	1,014,109	2,022	-	1,049,729
Radiation oncology.....	19,733	-	27,283	-	47,016
Pharmacy.....	2,976,890	14,885,846	189,526	-	18,052,262
Therapy pool.....	-	194,092	-	-	194,092
Anesthesiology.....	615,243	2,100,076	1,749	-	2,717,068
Physical therapy.....	631,558	2,074,911	81,085	34,920	2,822,474
Speech therapy.....	42,101	492,671	14,034	1,320	550,126
Enterostomal service.....	76,117	448,518	37,088	-	561,723
Occupational therapy.....	351,078	614,398	59,736	8,928	1,034,140
Pulmonary function testing.....	439	239,445	-	-	239,884
Sleep study.....	10,976	1,046,605	-	-	1,057,581
Pulmonary rehab.....	-	89,158	-	-	89,158
Cardiac rehab.....	-	296,021	-	-	296,021
Dialysis - Spencer.....	-	5,824,242	-	-	5,824,242
Dialysis - Spirit Lake.....	-	13,997,073	-	-	13,997,073
Home health:					
Registered nurse care.....	-	-	-	447,137	447,137
Aides care.....	-	-	-	283,186	283,186
County assistance.....	-	-	-	220,000	220,000
Other care.....	-	-	-	969,293	969,293
TOTAL OTHER PROFESSIONAL SERVICES	12,908,440	76,282,021	610,939	1,964,784	91,766,184
TOTAL GROSS PATIENT SERVICE REVENUE	\$ 49,075,389	\$ 140,977,615	\$ 1,358,741	\$ 1,964,784	\$ 193,376,529
					\$ 176,787,554

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
NET PATIENT SERVICE REVENUE
AND OTHER OPERATING REVENUES
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
GROSS PATIENT SERVICE REVENUE (Schedule 1).....	\$ 193,376,529	\$ 176,787,554
ADJUSTMENTS TO PATIENT SERVICE REVENUE:		
Medicare program.....	73,938,649	67,960,386
Medicaid program.....	12,292,816	11,835,055
Blue Cross / Wellmark.....	24,691,325	20,988,715
Other payors.....	7,903,299	5,014,081
Charity care.....	229,248	132,875
Bad debts.....	2,550,995	1,727,831
TOTAL ADJUSTMENTS TO PATIENT SERVICE REVENUE	<u>121,606,332</u>	<u>107,658,943</u>
NET PATIENT SERVICE REVENUE	<u>\$ 71,770,197</u>	<u>\$ 69,128,611</u>
OTHER OPERATING REVENUES:		
Abben fees:		
Personnel services.....	\$ 147,033	\$ 186,821
Building and equipment rental.....	490,428	715,352
Athletic enhancement.....	90,009	91,341
Auxiliary income.....	1,017	1,620
Cafeteria sales.....	350,925	331,505
Diagnostic imaging storage.....	33,756	32,785
Education programs.....	173,464	136,484
Employee health.....	2,779	2,002
Gift shop.....	93,502	75,902
Home medical equipment co. earnings (losses).....	58,376	6,066
Housekeeping revenue.....	28,353	28,384
Immunizations	67,683	70,676
Laboratory client billing.....	25,057	29,413
Medical record transcripts.....	9,102	19,988
Miscellaneous.....	124,164	66,985
Outreach services:		
Enterostomal therapy.....	77,945	84,384
Speech therapy.....	38,504	37,844
Occupational therapy.....	40,263	26,799
Physical therapy.....	78,779	54,809
Planet heart and stroke screening.....	23,827	24,775
Provider based settlement.....	494,136	-
Purchase discounts.....	9,135	6,423
Salary reimbursements:		
Sports medicine.....	214,012	143,695
Other.....	212,125	262,079
Steam sold.....	4,205	5,320
Technology consulting.....	-	500
Wellness screenings.....	31,755	26,443
TOTAL OTHER OPERATING REVENUES	<u>\$ 2,920,334</u>	<u>\$ 2,468,395</u>

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
SALARIES, PROFESSIONAL SERVICES, AND SUPPLIES AND OTHER EXPENSES
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	Salaries		Professional Services		Supplies and Other Expenses	
	2016	2015	2016	2015	2016	2015
Clinical resources.....	\$ 360,865	\$ 359,482	\$ -	\$ 297	\$ 701	\$ 1,109
Medical and surgery.....	2,067,926	2,025,343	45,455	53,423	205,237	214,356
Behavioral Health.....	846,977	915,431	551,485	317,596	26,938	33,371
Obstetrics.....	590,444	598,033	2,811	1,072	79,482	80,315
Women's health.....	41,071	39,302	200	200	1,381	1,864
Intensive care.....	604,044	572,557	135,430	99,704	44,188	37,702
Intravenous therapy.....	-	-	-	-	37,742	38,617
Dialysis - Spencer.....	438,240	478,844	86,175	94,142	111,363	102,313
Dialysis - Spirit Lake.....	570,264	547,998	244,737	217,678	333,649	309,173
Respiratory therapy.....	249,258	269,210	49,861	1,689	29,114	31,596
Sleep studies.....	-	-	230,920	182,995	-	7
Operating room.....	1,154,447	1,059,449	526,753	484,292	2,206,907	1,580,079
Central sterilization.....	103,821	110,038	233	11,095	168,350	170,892
Same day surgery.....	999,479	995,660	2,519	6,096	105,514	98,903
Post anesthesia care unit.....	247,888	249,396	180	-	90,661	97,653
Emergency service.....	910,117	923,642	2,013,052	1,743,831	103,217	91,305
Ambulance.....	587,867	554,234	1,215	1,206	66,476	77,552
Central supply.....	90,907	89,288	-	-	5,292,411	5,629,543
Telemedicine.....	1,725	-	-	-	-	-
Laboratory.....	660,235	667,898	544,401	519,626	499,028	401,511
Blood bank.....	-	-	-	-	114,319	192,676
Electrocardiology.....	67,953	70,996	127,465	94,292	-	281
Radiology.....	558,990	532,403	160,812	128,914	449,889	425,037
Ultrasound.....	176,752	174,979	18	2,366	32,343	42,261
CT scan.....	219,543	201,141	84,421	72,544	175,933	284,007
MRI.....	66,772	67,382	-	-	119,314	116,798
PET/CT scan.....	-	-	136,550	117,470	(349)	1,365
Nuclear medicine.....	91,542	93,134	-	-	199,841	186,877
Pharmacy.....	952,359	953,700	133,279	133,177	93,556	76,056
Anesthesiology.....	55,500	48,166	71	8,075	232,771	231,188

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
SALARIES, PROFESSIONAL SERVICES, AND SUPPLIES AND OTHER EXPENSES - Continued
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	Salaries		Professional Services		Supplies and Other Expenses	
	2016	2015	2016	2015	2016	2015
Physical therapy.....	\$ 714,705	\$ 673,628	\$ 6,832	\$ 21,394	\$ 20,565	\$ 18,208
Occupational therapy.....	214,901	182,608	8,410	36,033	14,844	14,123
Speech therapy.....	117,839	111,767	1,122	406	8,966	8,692
Sports medicine.....	18,706	18,245	387,600	387,600	78,655	81,098
Athletic enhancement.....	85,885	88,014	274	694	4,597	7,369
Cardiac rehabilitation.....	134,272	130,102	108	276	5,213	6,471
Social services.....	101,326	97,438	-	35	36	1,254
Medical oncology.....	463,969	463,940	690,520	651,390	82,632	63,200
Home health.....	785,167	755,783	47,939	14,303	67,007	46,305
Wound Care.....	143,230	132,124	334	400	26,595	25,971
Hospice.....	119,762	151,045	65,987	103,812	13,398	15,094
Staff development.....	215,780	217,047	73,210	103,740	46,013	40,209
Nutrition services.....	547,306	528,623	257,047	289,267	410,260	439,632
Plant.....	571,679	539,570	2,384	2,834	319,120	302,901
Utilities.....	-	-	-	-	768,254	852,564
Valet.....	68,578	64,133	-	1,376	1,616	2,378
Housekeeping.....	565,849	527,556	101,348	148,910	130,382	119,202
Gift Shop.....	-	-	-	-	63,835	76,967
Laundry.....	22,504	24,500	206,159	197,063	12,132	33,584
Medical records.....	558,485	501,981	102,507	101,716	54,975	78,950
General accounting.....	299,368	325,583	2,304	4,212	26,773	20,249
Patient accounts.....	779,261	713,872	716,873	279,831	83,280	92,153
Information systems.....	609,280	577,228	83,670	99,185	868,208	792,408
Administration.....	1,489,170	1,325,119	466,679	562,718	572,308	717,114
Safety.....	69,224	66,434	-	548	1,517	348
Materials management.....	157,588	143,089	29,741	22,350	26,140	41,337

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
SALARIES, PROFESSIONAL SERVICES, AND SUPPLIES AND OTHER EXPENSES - Continued
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	Salaries		Professional Services		Supplies and Other Expenses	
	2016	2015	2016	2015	2016	2015
Communications.....	\$ -	\$ -	\$ 180	\$ 1,790	\$ 82,288	\$ 87,085
Printing and duplicating.....	4,314	5,182	-	-	141,160	139,980
Human resources.....	281,633	275,609	16,238	28,426	153,625	107,975
Infection control.....	72,547	70,928	-	585	826	1,102
Quality.....	442,079	461,155	207,670	189,060	21,396	19,106
SHAPE	75,796	75,457	-	-	479	81
Insurance.....	-	-	-	-	259,150	278,403
Milford clinic.....	113,178	105,646	203,990	221,339	46,693	100,774
Sioux Rapids clinic.....	86,326	90,837	180,606	190,648	64,316	65,604
Clinic administration.....	26,766	26,526	-	-	1,606	1,527
Provider based clinic.....	99,692	-	8,479,908	-	1,332,092	-
Hospitalist.....	139,073	-	1,016,128	-	2,827	-
TOTAL	\$ 22,910,224	\$ 22,068,475	\$ 18,433,811	\$ 7,953,721	\$ 16,633,755	\$ 15,253,825

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
PATIENT RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

PATIENT RECEIVABLES ANALYSIS OF AGING:

	2016		2015	
	<u>Amount</u>	<u>Percent To Total</u>	<u>Amount</u>	<u>Percent To Total</u>
DAYS SINCE DISCHARGE:				
00 - 30.....	\$ 10,161,021	29.65%	\$ 10,337,631	39.05%
31 - 60.....	2,717,803	7.93%	2,761,830	10.44%
61 - 90.....	2,300,177	6.71%	1,654,555	6.25%
91 - 120.....	1,239,896	3.62%	1,187,704	4.49%
Over 120.....	9,184,341	26.80%	5,166,743	19.52%
Provider based clinic receivables.....	880,923	2.57%	-	0.00%
Clinic receivables.....	94,318	0.28%	107,138	0.40%
TOTAL RECEIVABLES BILLED	<u>26,578,479</u>	<u>77.55%</u>	<u>21,215,601</u>	<u>80.14%</u>
In Hospital.....	7,645,039	22.31%	5,258,209	19.86%
In provider based clinic.....	<u>47,250</u>	<u>0.14%</u>	<u>-</u>	<u>0.00%</u>
TOTAL PATIENT RECEIVABLES	<u>34,270,768</u>	<u>100.00%</u>	<u>26,473,810</u>	<u>100.00%</u>
Allowance for doubtful accounts.....	(2,546,000)		(2,319,000)	
Allowance for contractual adjustments.....	(18,351,000)		(13,873,000)	
Provider based clinic allowance for contractual adjustments	(222,232)		-	
Clinic allowance for contractual adjustments ...	<u>(38,900)</u>		<u>(48,500)</u>	
TOTAL ALLOWANCES	<u>(21,158,132)</u>		<u>(16,240,500)</u>	
PATIENT RECEIVABLES - NET	<u>\$ 13,112,636</u>		<u>\$ 10,233,310</u>	

ALLOWANCE FOR DOUBTFUL ACCOUNTS:

	<u>2016</u>	<u>2015</u>
BALANCE - BEGINNING OF YEAR	\$ 2,319,000	\$ 2,318,000
Provision charged to expense.....	2,550,995	1,727,831
Accounts written off.....	(3,433,399)	(3,096,635)
Recoveries of accounts previously written off.....	1,109,404	1,369,804
BALANCE - END OF YEAR	<u>\$ 2,546,000</u>	<u>\$ 2,319,000</u>

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
INVENTORIES AND PREPAID EXPENSES
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
INVENTORIES:		
Store room.....	\$ 418,926	\$ 431,026
Nutrition services.....	21,138	17,946
Laboratory.....	78,326	87,235
Pharmacy.....	1,010,468	822,916
Radiology.....	11,199	8,977
Surgery.....	1,854,419	1,744,949
Other departments.....	55,355	41,105
	<u> </u>	<u> </u>
TOTALS	<u>\$ 3,449,831</u>	<u>\$ 3,154,154</u>
PREPAID EXPENSES:		
Service contracts and other.....	\$ 1,169,757	\$ 1,269,755
Association dues.....	40,384	38,550
	<u> </u>	<u> </u>
TOTALS	<u>\$ 1,210,141</u>	<u>\$ 1,308,305</u>

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
INVESTMENT TRANSACTIONS
FOR THE YEAR ENDED JUNE 30, 2016

	Balances Beginning of Year	Additions During the Year	Sales During the Year	Realized & Unrealized Gains (Losses)	Balances End of Year
Mutual funds and ETFs.....	\$ 12,023,854	\$ 13,019,231	\$ (12,314,842)	\$ (299,879)	\$ 12,428,364
Agricultural real estate.....	3,521,200	-	\$ (1,700)	(215,500)	3,304,000
Education revolving loan fund.....	12,068	-	(1,622)	-	10,446
	<u>12,068</u>	<u>-</u>	<u>(1,622)</u>	<u>-</u>	<u>10,446</u>
TOTAL	<u>\$ 15,557,122</u>	<u>\$ 13,019,231</u>	<u>\$ (12,318,164)</u>	<u>\$ (515,379)</u>	<u>\$ 15,742,810</u>

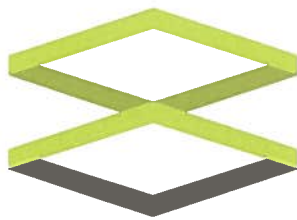
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**SPENCER MUNICIPAL HOSPITAL
OTHER INFORMATION
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

SPENCER MUNICIPAL HOSPITAL
COMPARATIVE STATISTICS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014
UNAUDITED

	<u>2016</u>	<u>2015</u>
Admissions:		
Medical/surgery, obstetrics & intensive care.....	1,978	2,012
Mental health unit.....	414	417
Swing bed and inn care.....	<u>110</u>	<u>95</u>
TOTAL	<u><u>2,502</u></u>	<u><u>2,524</u></u>
Discharges:		
Medical/surgery, obstetrics & intensive care.....	1,932	1,965
Mental health unit.....	401	419
Swing bed and inn care.....	<u>120</u>	<u>100</u>
TOTAL	<u><u>2,453</u></u>	<u><u>2,484</u></u>
Patient days:		
Medical/surgery, obstetrics & intensive care.....	6,982	6,942
Mental health unit.....	2,176	2,836
Swing bed and inn care.....	<u>1,136</u>	<u>796</u>
TOTAL	<u><u>10,294</u></u>	<u><u>10,574</u></u>
Average number of patients per day:		
Medical/surgery, obstetrics & intensive care.....	19.13	19.02
Mental health unit.....	5.96	7.77
Swing bed and inn care.....	3.11	2.18
Average length of stay (days):		
Medical/surgery, obstetrics & intensive care.....	3.53	3.45
Mental health unit.....	5.26	6.80
Swing bed and inn care.....	10.33	8.38
Births.....	<u><u>270</u></u>	<u><u>276</u></u>
Outpatient visits	<u><u>123,499</u></u>	<u><u>121,603</u></u>
Licensed beds at end of year.....	<u><u>99</u></u>	<u><u>99</u></u>

See Independent Auditors' Report.



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

To the Board of Trustees of
Spencer Municipal Hospital

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompanying basic financial statements of Spencer Municipal Hospital (Hospital) as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, and have issued our report thereon October 3, 2016.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Spencer Municipal Hospital during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Winters, Stave & Co., LLP.

October 3, 2016
Spencer, Iowa

SPENCER MUNICIPAL HOSPITAL
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

Part I: Findings Related to the Financial Statements

None

Part II: Other Findings Related to Required Statutory Reporting

II-A-16 Certified Budget

For the year ended June 30, 2016, the Hospital's expenditures did not exceed the amount budgeted, as amended.

II-B-16 Questionable Expenditures

No expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

II-C-16 Travel Expense

No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

II-D-16 Business Transactions

Business transactions between the Hospital and Hospital officials or employees are detailed as follows:

<u>Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Neal Conover, Board member Chairman of Northwest Bank and affiliates	Interest income from Northwest Bank	\$ 897
Steve Lensing, Board member Co-owner of Arnold Motor Supply	Supply purchases	693
Kris Van Berkum, Board member Co-owner JCL Solutions *	Supply purchases	74,542
John Cotton, Board member Co-owner Cotton Grave Farm Management & Realty	Farm management fees	6,686
Co-owner Community State Bank	Interest income from Community State Bank	1,353

*Ms. Van Berkum resigned from the board prior to the majority of these expenditures.

The transactions do not appear to represent a conflict of interest since the transactions were entered into through competitive bidding in accordance with Chapter 362.5(4); additionally with regards to the banking transactions, the bank has been approved by the board of trustees in accordance with Chapter 362.5(2) of the Code of Iowa.

SPENCER MUNICIPAL HOSPITAL
SCHEDULE OF FINDINGS - Continued
FOR THE YEAR ENDED JUNE 30, 2016

Part II: Other Findings Related to Required Statutory Reporting - Continued

II-E-16 Board Minutes

No transactions were found that we believe should have been approved in Board minutes but were not. The Board minutes were examined and appeared to give a condensed, accurate account of business transacted by the Board.

II-F-16 Deposits and Investments

No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy were noted.